

CITY OF NEWTON

FINANCIAL AUDIT ADVISORY COMMITTEE

ACCOUNTING and AUDIT SUB-COMMITTEE REPORT

TUESDAY, FEBRUARY 17, 2015

Present: Gail Deegan (Chair), Ald. Fuller and Ald. Danberg

Also present: David Wilkinson (Comptroller), Maureen Lemieux (Chief of Staff/Chief Financial Officer), Sue Dzikowski (Director of Finance; School Department), Lieutenant David MacDonald (Police Department), Lisa Pearson (Police Department), Jim Reardon (Treasurer/Collector), John Lojek (Commissioner of Inspectional Services)

The sub-committee reviewed the auditor's management letter for Fiscal Year 2014. The management letter contains prior fiscal year comments that have been partially resolved and new current year comments. The sub-committee discussed all of the partially resolved and new comments except the new comment related to information technology. (Information Technology will be reviewed at the next meeting.) Representatives of each of the departments that have either type of comment in the Management Letter joined the sub-committee.

Police Details

Executive Officer David MacDonald and Payroll Coordinator Lisa Pearson from the Police Department joined the sub-committee to discuss the partially resolved comment related to uncollectible police detail bills. The Fiscal Year 2013 management letter contained recommendations that the Police Department develop a formal policy and procedures to deal with uncollectible police detail bills and to use a software specifically designed for billing and collection to provide clearer audit trails and reports. In the past year, the Police Department has developed and implemented policies related to uncollectible police detail bills and the write-off of those receivables. In addition, the City's Information Technology Department created a billing and collection system that can be integrated with the police detail scheduling and payroll software; however, the software has not been integrated.

Lieutenant MacDonald stated that currently there are only three bills that are past due over 90 days. The Police Department continues to work with the Comptroller and Law Department to address all outstanding police detail bills. Furthermore, the Police Department and Law Department are working to create a prepayment program for police details. The Police Department is also working with the Engineering Division of the Public Works Department. The Police Department provides a list of contractors that have outstanding detail bills and the Engineering Division will not issue permits to those contractors unless they have paid their detail bill. The Police Department is following the new policy and after using it over the past year determined that it could eliminate one of the

steps to make the policy more efficient. The eliminated step relates to when final notice for payment is sent. The final notice was originally sent after 90 days; however, it makes more sense to send the final notice after 60 days instead of another invoice for payment.

The integration of the new software for police detail billing with the City's general ledger has not occurred. The completion of this step hinges on the creation of a software bridge between the new software and the general ledger software that would transfer information between the two software programs. The creation of the bridge is a highly technical project that requires a specific skill set. The city may look to hire a consultant to develop the bridge. It is expected that the development of the bridge will begin by the end of the fiscal year.

The sub-committee asked Lieutenant MacDonald to provide an update on the progress of the software integration in September 2015.

Investment Policy

Treasurer Jim Reardon joined the sub-committee to discuss the auditor's recommendation that the City adopt a written investment policy for investment funds that do not fall under a current investment policy. At a minimum, the policy should include investment objectives, the desired mix of low, medium, and high-risk investments, and length of commitment.

Mr. Reardon explained that there are approximately a dozen small investment funds that are currently not subject to the City's investment policy. All of these funds are in pooled cash in a bank account. The auditor is suggesting that the City look at whether that is the most appropriate investment of these funds. There already has been discussion regarding the possibility of approaching the State Treasurer to see if the City could invest its trusts in the PRIT Fund. Another alternative is to look at buying low cost index funds with appropriate levels of risk. The Chief of Staff, Comptroller, and Treasurer will work to develop a policy and update the sub-committee in September 2015.

Risk Assessment and Monitoring

The Comptroller recommends that the external auditor look at the Human Resource function regarding level of documentation of policies and procedures. There has been ongoing turnover in the Department and, due to that turnover, there have been changes in procedures and terminology resulting in confusion between departments. Several critical positions such as the Workers' Compensation Agent and the Human Resources Director have or are turning over in the Human Resources Department.

Chief of Staff Maureen Lemieux stated that the department has an interim director. The interim director is doing an assessment of the department. A former Human Resources Department employee has come back part-time to work on workers' compensation and the

City has the same outside attorney handling workers' compensation cases. The Administration is evaluating in what direction to take the workers' compensation function.

It makes sense to have the auditor look at controls in the Human Resources Department. The problems within the Human Resources Department rise to the level of hiring an external consultant to do a review of the department. Ms. Lemieux felt that there was a possibility that the Administration may go in that direction.

Financial Policies and Procedures

The auditor recommends that the city develop financial policies for the administration of state and federal grants; as well as policies and procedures for personnel in terms of hiring, payroll and other database changes related to the Human Resources Department. The Administration response to the recommendation states that the Comptroller will develop a grants administration guide and that the Audit Committee will discuss how to best document Human Resources activities with Chief of Staff Maureen Lemieux.

Comptroller David Wilkinson will put something together regarding grant administration with specific procedures related to larger grants.

Bigelow Middle School Student Activity Funds

The auditors recommend that the Bigelow Middle School develop procedures to deposit cash receipts within 48 hours of collection and that standard turnover forms are utilized going forward. The School Department now has made the use of the standard turnover form permanent. The principal and bursar at Bigelow Middle School have added time in the weekly schedule for the deposit of cash slips within 48 hours of receipt.

Inspectional Services Department

The auditor visited the Inspectional Services Department and found that no formal policies and procedures are in place for cash collection. The auditor recommends that there be formal written policies and procedures. The auditor also noted that the department does not sign and date the reconciliation of the fees collected for permits. The auditor recommends that the reconciliations be signed and dated by the preparer and a supervisory reviewer. The auditor also looked at ten cash receipt turnover forms and noted that four of the ten forms contained clerical errors and had to be revised and resubmitted to the Treasurer's Office. The department should strengthen procedures to prepare accurate cash receipt turnover forms.

Commissioner of Inspectional Services John Lojek joined the sub-committee and explained that he sent a written response to the auditor stating that the department will be producing the recommended procedures and forms. The sub-committee members

suggested that Commissioner Lojek rejoin the sub-committee at its next meeting and provide the written response and an update on progress.

The sub-committee also determined that the auditor should repeat the documentation of the accounts receivable procedures in the Inspectional Services Department and visit one of the high schools and either a middle or elementary school during next year's audit.

Respectfully submitted,

Gail Deegan, Chairman